

**PAW PAW LAKE REGIONAL JOINT
SEWAGE DISPOSAL BOARD**

FINANCIAL REPORT

March 31, 2008

Auditing Procedures Report V1.04

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Issued under Public Act 2 of 1968, as amended.

Unit Name	Paw Paw Lake Regional Joint Sewage Brd	County	BERRIEN	Type	OTHER	MuniCode	
Opinion Date-Use Calendar	March 31, 2008	Audit Submitted-Use Calendar	SEPTEMBER 12, 2008		Fiscal Year-Use Drop List	2008	

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	N/A
General Fund Expenditure:	N/A
Major Fund Deficit Amount:	N/A

General Fund Balance:	N/A
Governmental Activities Long-Term Debt (see instructions):	N/A

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	ROBERT L.	Last Name	GERBEL	Ten Digit License Number	0000003953				
CPA Street Address	830 PLEASANT ST	City	ST. JOSEPH	State	MI	Zip Code	49106	Telephone	2699830534
CPA Firm Name	GERBEL & COMPANY, PC	Unit's Street Address	5780 N WATERVLIET	City	WATERVLIET		LU Zip	49098	

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD

FINANCIAL STATEMENTS

March 31, 2008

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PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Management's Discussion and Analysis

About the Facility

The Paw Paw Lake Regional Joint Sewage Disposal Board (the "Joint Board") serves the Coloma and Watervliet regional area with wastewater treatment services. The Joint Board was established in January 1971 as a not-for-profit, tax-exempt organization when the cities and townships of Coloma and Watervliet agreed to jointly acquire, own and operate a sewage treatment and disposal facility. Act 129 of Michigan Public Acts of 1943 is the state legislation authorizing the municipalities to establish the Joint Board. The Joint Board was established to control, manage, and operate the joint sewage facility. The Joint Board consists of two appointed representatives from each of the four municipalities. Ownership of the infrastructure passed to the municipalities in May of 1993 when the related construction debt was retired.

The Joint Board provides wastewater treatment services to the cities and townships of Coloma and Watervliet. The connected service population is approximately twelve thousand. Treatment capacity of the facility is 2.5 million gallons per day. For the fiscal year ended March 31, 2008, the Joint Board treated an average flow of 1,193 thousand gallons per day.

Usage, listed by gallons processed, by municipalities during the fiscal year, is as follows:

	Year ended March 31	
	<u>2008</u>	<u>2007</u>
City of Coloma	42,554,700	40,821,900
Coloma Township	126,114,976	67,744,400
City of Watervliet	88,684,700	76,863,100
Watervliet Township	<u>178,163,131</u>	<u>151,573,099</u>
Total	<u>435,517,507</u>	<u>337,002,499</u>

Financial Highlights

The Joint Board's total net assets were \$1,025,744 at March 31, 2008, of which \$59,725 was invested in capital assets. At March 31, 2007, the Joint Board's total net assets were \$867,506 of which \$59,057 was invested in capital assets.

The Joint Board's total operating and administrative expenses exceeds operating revenues for the fiscal year ended March 31, 2008. Total operating expenses were \$659,460 and \$631,112 for the years ended March 31, 2008 and 2007. Operating revenues were \$868,743 and \$516,069 for the years ended March 31, 2008 and 2007.

Overview of the Financial Statements

This report consists of three parts - *Management's Discussion and Analysis* (this section), the *basic financial statements*, and *supplemental information*. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Management's Discussion and Analysis

Condensed Financial Information

The following table represents condensed information about the Joint Board's financial position for the past two fiscal years. Total net assets increased by \$265,182.

	Year Ended March 31	
	<u>2008</u>	<u>2007</u>
Current assets	\$ 798,005	\$ 359,945
Capital assets	59,725	59,057
Long-term investments	<u>265,592</u>	<u>448,504</u>
Total Assets	<u>\$ 1,123,322</u>	<u>\$ 867,506</u>
 Current liabilities	 <u>\$ 97,578</u>	 <u>\$ 106,944</u>
Net assets:		
Invested in capital assets	\$ 59,725	\$ 59,057
Unrestricted	<u>966,019</u>	<u>701,505</u>
Total Net Assets	<u>\$ 1,025,744</u>	<u>\$ 760,562</u>
 Total Current Liabilities and Net Assets	 <u>\$ 1,123,322</u>	 <u>\$ 867,506</u>

Operating Income and Expenses

The following table represents condensed financial information about the Joint Board's revenues and expenses. The net profit (loss) was \$265,182 and (\$78,313) for the years ended March 31, 2008 and 2007, respectively.

	Year ended March 31	
	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 868,743	\$ 516,069
Operating expenses	<u>659,460</u>	<u>631,112</u>
Operating loss	\$ 209,283	\$ (115,043)
Investment income	<u>55,899</u>	<u>36,730</u>
Net loss	<u>\$ 265,182</u>	<u>\$ (78,313)</u>

Results of Operations

- Operating revenues from the municipalities increased by \$352,674. This is due to the increase in water rates and the increase in water flow used by the municipalities during the year.
- Operating expenses increased by \$28,348.

Capital Assets

Ownership of the infrastructure passed to the municipalities in May of 1993 when the related construction debt was retired. Capital assets include the equipment, building, land, and vehicles. The capital plan is directed toward maintaining the existing facilities. The Joint Board is currently debt free.

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Management's Discussion and Analysis

Budget Variances

The 2008 fiscal year ended with actual operating income greater than budgeted income by \$169,143. Operating expenses exceeded budgeted amounts by \$120,675. Significant variances include:

- Actual municipal fees collected were \$149,660 greater than what was budgeted.
- Investment income of \$55,899 was not budgeted.
- Group health and life insurance costs of \$116,760 exceeded budgeted amounts of \$90,000 by \$26,760.
- Operating supplies and services of \$118,629 exceeded budgeted amounts of \$71,000 by \$47,629.
- Legal, accounting, and audit services of \$24,507 exceeded budgeted amounts of \$6,000 by \$18,507.
- Depreciation expense of \$9,664 was not budgeted.

Contacting the Joint Board's Management

The purpose of this management's discussion and analysis is to provide an overview of the current and prospective financial condition of the Joint Board's operations and physical assets. Questions concerning this report may be directed to Mr. Joseph Stepich, Joint Board President.

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

August 11, 2008

INDEPENDENT AUDITOR'S REPORT

Paw Paw Lake Regional Joint
Sewage Disposal Board
Coloma, Michigan

We have audited the accompanying financial statements of the business-type activities of the Paw Paw Lake Regional Joint Sewage Disposal Board as of and for the year ended March 31, 2008 and 2007, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Paw Paw Lake Joint Sewage Disposal Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Paw Paw Lake Regional Joint Sewage Disposal Board as of March 31, 2008 and 2007, and the change in financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages I through III are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gerbel & Company, P.C.

Right. On time.

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Statement of Net Assets

	<u>March 31,</u>	
	<u>2008</u>	<u>2007</u>
Assets		
Current Assets:		
Cash	\$ 238,583	\$ 7,907
Accounts receivable	91,913	60,352
Short-term investments	461,487	283,034
Prepaid insurance	<u>6,022</u>	<u>8,652</u>
Total Current Assets	\$ 798,005	\$ 359,945
Land	23,408	23,408
Building and equipment, net of accumulated depreciation	36,317	35,649
Long-term investments	<u>265,592</u>	<u>448,504</u>
Total Assets	<u>\$ 1,123,322</u>	<u>\$ 867,506</u>
Liabilities		
Current Liabilities:		
Accounts payable	\$ 43,266	\$ 15,671
Salaries and wages	1,848	4,463
Accrued vacation and sick leave	48,448	83,001
Payroll taxes	141	341
Retirement plan payable	<u>3,875</u>	<u>3,468</u>
Total Current Liabilities	<u>\$ 97,578</u>	<u>\$ 106,944</u>
Net Assets		
Invested in capital assets	\$ 59,725	\$ 59,057
Unrestricted	<u>966,019</u>	<u>701,505</u>
TOTAL NET ASSETS	<u>\$ 1,025,744</u>	<u>\$ 760,562</u>

The accompanying notes are an integral part of these financial statements.

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Statement of Revenues and Expenses

	<u>For the Year Ended March 31,</u>	
	<u>2008</u>	<u>2007</u>
Operating Revenues:		
Municipal fees and other service fees:		
City of Coloma	\$ 82,982	\$ 60,702
Township of Coloma	245,924	100,736
City of Watervliet	172,936	114,295
Township of Watervliet	<u>347,418</u>	<u>225,389</u>
Total Municipal Fees	\$ 849,260	\$ 501,122
Industrial revenue	4,250	4,627
Miscellaneous	<u>15,233</u>	<u>10,320</u>
Total Operating Revenues	\$ <u>868,743</u>	\$ <u>516,069</u>
Operating Expenses:		
Salaries and wages	\$ 207,247	\$ 239,350
Payroll taxes, retirement plan, and benefits	40,784	42,545
Group insurance - health and life	116,760	97,112
Operating supplies and services	118,629	82,261
Utilities	62,998	52,038
Depreciation	9,664	14,844
Insurance - liability and workers' compensation	45,522	55,551
Repairs and maintenance	15,637	9,719
Legal, accounting, and audit services	24,507	17,198
Board meeting fees	10,738	8,000
Other operating expenses	<u>6,974</u>	<u>12,494</u>
Total Operating Expenses	\$ <u>659,460</u>	\$ <u>631,112</u>
Operating profit (loss)	\$ 209,283	\$ (115,043)
Nonoperating Income and Expenses:		
Investment income	<u>55,899</u>	<u>36,730</u>
NET INCOME (LOSS) FOR THE YEAR	\$ <u>265,182</u>	\$ <u>(78,313)</u>

The accompanying notes are an integral part of these financial statements.

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Statement of Changes in Net Assets

	<u>For the Year Ended March 31,</u>	
	<u>2008</u>	<u>2007</u>
Net Assets - Beginning of year	\$ 760,562	\$ 838,875
Net profit (loss) for the year	<u>265,182</u>	<u>(78,313)</u>
NET ASSETS - END OF YEAR	<u>\$ 1,025,744</u>	<u>\$ 760,562</u>

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Statement of Cash Flows

	<u>For the Year Ended March 31,</u>	
	<u>2008</u>	<u>2007</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 837,182	\$ 519,670
Cash payments to suppliers for goods and services	(412,117)	(375,987)
Cash payments to employees for services	<u>(244,415)</u>	<u>(234,155)</u>
Net Cash Provided by Operating Activities	<u>\$ 180,650</u>	<u>\$ (90,472)</u>
Cash Flows From Investing Activities:		
Investment income	\$ 55,899	\$ 36,730
Purchase of investments	(384,655)	(240,757)
Proceeds from investments	<u>389,112</u>	<u>213,803</u>
Net Cash Provided by Investing Activities	<u>\$ 60,356</u>	<u>\$ 9,776</u>
Cash Flows (Used in) Capital Activities:		
Cash payments for the purchase of equipment	<u>\$ (10,330)</u>	<u>\$ (20,629)</u>
Net Increase (Decrease) in Cash	\$ 230,676	\$ (101,325)
Cash at beginning of the year	<u>7,907</u>	<u>109,232</u>
CASH AT END OF THE YEAR	<u><u>\$ 238,583</u></u>	<u><u>\$ 7,907</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating Income (Loss)	\$ 209,283	\$ (115,043)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	9,664	14,844
(Increase) decrease in accounts receivable	(31,561)	3,601
(Increase) decrease in prepaid insurance	2,630	160
Increase (decrease) in accounts payable	27,595	3,538
Increase (decrease) in accrued liabilities	<u>(36,961)</u>	<u>2,428</u>
Net cash provided (used) by operating activities	<u>\$ 180,650</u>	<u>\$ (90,472)</u>

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Notes to Financial Statements
March 31, 2008

NOTE 1 - NATURE OF ENTITY AND ACCOUNTING POLICIES

A. Nature of Entity

The Paw Paw Lake Regional Joint Sewage Disposal Board is a joint venture of the cities of Coloma and Watervliet and the townships of Coloma and Watervliet, Michigan, and was created pursuant to Public Act 129, Michigan Public Acts of 1943. Its allowed purpose is to acquire and operate a sewage disposal system.

The accounting policies of the Paw Paw Lake Regional Joint Sewage Disposal Board ("the Joint Board") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of significant accounting policies.

B. Accrual Basis of Accounting

The organization recognizes revenues when earned. Expenses are recorded when incurred.

C. Capital Assets

Property and equipment are stated at cost. Expenditures for repairs and maintenance are charged to operations as incurred and major renewals and betterments are capitalized. Depreciation is recorded on the straight-line method over the estimated useful lives.

Buildings	20 years
Equipment	5-10 years
Vehicles	5 years
Office equipment	5 years

D. Operating Revenue and Nonoperating Revenue

Operating revenue represents billings to municipalities based on flow rates metered by the Joint Board as well as charges to local businesses for industrial processing. Nonoperating revenue includes other revenue, such as investment income, that does not directly fund general operations of the plant.

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Joint Board considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Notes to Financial Statements
March 31, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws authorize the Joint Board to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Joint Board is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Joint Board has designated a local bank for the deposit of its funds. The investment policy adopted by the Joint Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, repurchase agreements, and bankers' acceptances. The Joint Board's deposits and investment policy are in accordance with statutory authority.

Investments are presented in the financial statements at fair market value. All investments are considered temporary. Premiums and discounts are not amortized. Interest is accrued on investments.

For the year ended March 31, 2008, investment income and losses consisted of interest and dividend income of \$33,920, realized gain of \$6,620 and unrealized loss of \$15,359.

The Joint Board's cash and investments are subject to several types of risk, which are explained in more detail below.

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Joint Board's deposits may not be returned to it. The Joint Board does not have a deposit policy for custodial credit risk. At year-end, \$158,627 of the Joint Board's bank deposits (certificates of deposit, checking and savings accounts) were uninsured. The Joint Board evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Joint Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Joint Board does not have a policy for custodial credit risk. At year-end, approximately \$411,316 of investment securities were held by an investment company.

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Notes to Financial Statements
March 31, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Joint Board's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased, with a 270-day maturity. At year-end, the maturities of investment are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturity Less than One Year</u>	<u>One to Five Years</u>
Federal home loan mortgage	\$ 137,858	\$ -	\$ 137,858
GNMA guaranteed pass through certificates	50,019	-	50,019
Governmental and agency securities	77,716	34,906	112,622
Certificates of deposit	-	426,580	426,580
	<u> </u>	<u> </u>	<u> </u>
Total Investments	\$ 265,593	\$ 461,486	\$ 727,079

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Joint Board has no investment policy that would further limit its investment choices. At year-end, the Joint Board held no debt securities other than U.S. government or U.S. government agency securities.

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

A summary of changes in property, plant, and equipment for the year ended March 31, 2008 was as follows:

	<u>Balance April 1, 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance March 31, 2008</u>
Land	\$ 23,408	\$ -	\$ -	\$ 23,408
Building	\$ 103,235	\$ -	\$ -	\$ 103,235
Equipment	572,010	7,497	-	579,507
Vehicles	43,252	-	-	43,252
Office equipment	31,589	2,833	-	34,422
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	\$ 750,086	\$ 10,330	\$ -	\$ 760,416
Less: Accumulated Depreciation	(714,435)	(9,664)	-	(724,099)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets Other Than Land	\$ 35,651	\$ 666	\$ -	\$ 36,317

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Notes to Financial Statements
March 31, 2008

NOTE 4 - ACCRUED VACATION AND SICK LEAVE

Vacation and sick pay consist of:

Vacation pay	\$ 7,223
Sick leave accumulated	<u>41,225</u>
Total	<u>\$ 48,448</u>

Vacation pay is earned depending upon years of service and is payable upon termination. Sick leave benefits represent only that amount that would be payable should employees use the benefit. Unused sick pay will not be reimbursed upon termination.

NOTE 5 - RETIREMENT PLAN

Plan Description - Substantially all employees of the Joint Board are covered under the contributory defined benefit Municipal Employees' Retirement System ("MERS"), an agent, multiple employer public pension plan. MERS provides retirement, survivor and disability benefits to municipal employees under the provisions of the Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220, as embodied in the MERS Plan Document (as revised). MERS issues annually a publicly available actuarial valuation. The report includes the determination of liabilities and contribution rates resulting from the participation of the Joint Board in MERS. The report may be obtained by writing to MERS, 447 N. Canal Rd., Lansing, Michigan 48917, or by calling (517) 622-4401.

All full-time permanent employees are eligible to participate in MERS. Participants who retire at or after age 60 with ten years of credited service, age 55 with 15 years of credited service, or age 50 with 25 years of credited service are entitled to a retirement benefit equal to the participant's final average compensation, as defined, multiplied by 2.5% for each year of credited service. Under the program, participants contribute 3% of their first \$4,200 of annual compensation and 5% of portions over \$4,200.

Funding Policy - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The Joint Board has authorized any required employer contributions.

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Employee Retirement Plan
Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date December 31,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll (b) - (a) (c)
2000	\$ 614,988	\$ 542,949	\$ (72,039)	113%	\$ 163,334	0%
2001	660,581	634,844	(25,737)	104%	174,818	0%
2002	675,816	694,727	18,911	97%	152,620	12%
2003	718,442	731,330	12,888	98%	155,544	8%
2004	767,687	832,082	64,395	92%	162,236	40%
2005	821,987	911,882	89,895	90%	184,728	49%
2006	901,393	997,766	96,373	90%	229,901	42%

Required Supplementary Information
Schedule of Employer Contributions

Fiscal Year Ended March 31,	Annual Recommended Contribution	Actual Contributions	Percent Contributed
2001	\$ 8,020	\$ 8,020	100%
2002	10,996	10,996	100%
2003	12,630	12,630	100%
2004	12,540	12,540	100%
2005	17,040	17,040	100%
2006	19,830	19,830	100%
2007	22,208	22,208	100%

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Municipal Employees' Retirement System of Michigan
Required Supplementary Information
Summary of Actuarial Methods and Assumptions

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2006
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Amortization period	30 years
Assets valuation method	10-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.5%
Total payroll growth	4.5%
Cost-of-living adjustments	2.5% Non-Compound

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Notes to Financial Statements
March 31, 2008

NOTE 6 - RISK MANAGEMENT

Insurance - The Joint Board is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Joint Board has purchased commercial insurance for employee health, property, liability and workers' compensation.

Industrial Waste Pretreatment Program Regulations - The Joint Board's sewage treatment and disposal operations are subject to regulations and governmental authorities. The complexity of these regulations results in many areas of uncertainty and requires interpretation. The regulatory agencies may question Joint Board interpretations. If the Joint Board's interpretations do not prevail, remedial actions and/or civil penalties could be assessed that could have an adverse effect on the Joint Board's operations.

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Statement of Revenues, Expenses, and
Changes in Net Assets - Budget and Actual
For the Year Ended March 31, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operating Revenues:			
Municipal fees	\$ 699,600	\$ 849,260	\$ 149,660
Miscellaneous	<u>-</u>	<u>19,483</u>	<u>19,483</u>
Total Operating Revenues	<u>\$ 699,600</u>	<u>\$ 868,743</u>	<u>\$ 169,143</u>
Operating Expenses:			
Salaries and wages	\$ 244,000	\$ 207,247	\$ 36,753
Payroll taxes, retirement plan, and benefits	39,000	40,784	(1,784)
Group insurance - health and life	90,000	116,760	(26,760)
Operating supplies and services	71,000	118,629	(47,629)
Utilities	75,000	62,998	12,002
Depreciation	-	9,664	(9,664)
Insurance - liability and workers' compensation	94,000	45,522	48,478
Repairs and maintenance	39,500	15,637	23,863
Legal, accounting, and audit services	6,000	24,507	(18,507)
Board meeting fees	11,000	10,738	262
Other operating expenses	<u>10,600</u>	<u>6,974</u>	<u>3,626</u>
Total Operating Expenses	<u>\$ 680,100</u>	<u>\$ 659,460</u>	<u>\$ 20,640</u>
Operating income (loss)	\$ 19,500	\$ 209,283	\$ 189,783
Nonoperating Income and Expenses:			
Investment income	<u>-</u>	<u>55,899</u>	<u>55,899</u>
NET INCOME (LOSS) FOR THE YEAR	\$ 19,500	\$ 265,182	\$ 245,682
Net Assets - Beginning of Year	<u>760,562</u>	<u>760,562</u>	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ 780,062</u>	<u>\$ 1,025,744</u>	<u>\$ 245,682</u>

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

August 11, 2008

Paw Paw Lake Regional Joint Sewage Disposal Board
Coloma, Michigan

In connection with our audit of the books and records of Paw Paw Lake Regional Joint Sewage Disposal Board for the year ended March 31, 2008, we offer the following comments and recommendations regarding bookkeeping and accounting matters which are in addition to the significant deficiencies that are discussed in a separate letter.

1. Minutes need to be signed by the Secretary of the Board after the final minutes are accepted by the Board.
2. Currently there is no dollar threshold to capitalize an asset. We recommend that the Board approve a capitalization threshold for new capital assets.
3. We recommend that the interest earned from the Standard Federal Bank certificate of deposit be recorded annually in the general ledger.

We appreciate the courtesy and cooperation extended to us by the officials of the Paw Paw Lake Regional Joint Sewage Disposal Board and trust that these comments and suggestions will be received in the spirit of cooperation in which they are offered.

If we can be of any assistance in implementing any of these suggestions or if you have any questions regarding these or any other matters, please feel free to contact us.

Very truly yours,



GERBEL & COMPANY, P.C.
Certified Public Accountants

Right. On time.

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August 11, 2008

Communication of Significant Deficiencies That Indicates No Material Weaknesses in Internal Control

To: The Board of Directors and Management of
Paw Paw Lake Regional Joint Sewage Disposal Board

In planning and performing our audit of the financial statements of Paw Paw Lake Regional Joint Sewage Disposal Board as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Paw Paw Lake Regional Joint Sewage Disposal Board's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness on the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiencies in internal control that we consider to be significant deficiencies:

1. In order for the monthly Board reports to be accurate to the true financial state of the Plant we recommend the following suggestions:
 - Each month unpaid invoices need to be recorded as accounts payable. During testing \$32,241 of expenditures was recorded as accounts payable at year end.

Right. On time.

PHONE: 269-983-0534 ■ FAX: 269-983-7050 ■ EMAIL: gerbel@parrett.net ■ WEB SITE: www.gerbel.com

- We recommend that the Board post a monthly depreciation entry. The current year depreciation was \$9,664 of expense.
- 2. We recommend that the Board monitor the budget on a monthly basis. If amendments need to be made to the budget, the Board should amend the budget line item at the board meeting. No budget amendments were made during the year.

In addition, we noted other matters involving the internal control and its operation that we have reported to management of Paw Paw Lake Regional Joint Sewage Disposal Board in a separate letter dated August 11, 2008.

This communication is intended solely for the information and use of management, Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


GERBEL & COMPANY, P.C.
Certified Public Accountants